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HFA Single-Family Loans Experience Higher Delinquency, But Still Outperform The General Housing Market

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Table Of Contents

Rates Are Rising

HFA Resolutions Are Generally Better Than States'

Rankings By State Have Undergone Some Changes

Recovery Or Not, HFA Loans Are On Solid Ground

HFA/State Delinquency Stats

Indenture Delinquency Stats

HFA Ranking Changes

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Over the last few years, borrowers across the U.S. have found themselves with mortgage payments they can't afford, sometimes on houses worth less than the amount they owe. One result Standard & Poor's Ratings Services has observed has been a steep increase in defaults, and this has been true of housing finance agency (HFA) loans, as well. The overall percentage of HFA loans at least 60 days delinquent or in foreclosure, however, typically trails that of the general housing market in each state where HFA loans are originated.

Despite the increase, we believe that the current delinquency rates of loans supporting bonds issued pursuant to HFA bond resolutions do not in and of themselves pose an immediate risk to credit quality. However, the delinquency rate on an HFA's loans, when combined with other factors such as variable-rate debt exposure, counterparty risk, and declining credit from downgraded mortgage insurers can contribute to a rating action on the HFA's bonds. We monitor on a quarterly basis the delinquency of loans within all active parity resolutions, the main debt structure that HFAs employ, that we rate. To date, of the HFA bonds we have rated over the past two years, we have lowered the rating on the bonds issued pursuant to only one HFA resolution, and we have taken other negative rating actions in the form of negative outlooks or CreditWatch in connection with the bonds issued pursuant to just three other HFA resolutions.

Rates Are Rising

The average delinquency rate of the loans backing rated HFA bonds issued under 34 whole loan bond resolutions rose to 4.51% in the first quarter of 2009 (Q1 2009) from 3.09% in the first quarter of 2008 (Q1 2008). To put these figures in perspective, we assume sufficiency to withstand a foreclosure rate of 32% at the 'AA' rating for a pool of loans in a large state. When adjusting state figures from the Mortgage Bankers Association (MBA) to reflect a similar proportion based on loan type within each bond resolution, general state delinquency jumped more than two percentage points to 5.85% in Q1 2009 from 3.79% in Q1 2008. In the last five quarters, the loans in only one out of 34 bond resolutions, have had a delinquency rate above 10%: Georgia Housing and Finance Authority's single-family mortgage bonds, at 10.45% on March 31, 2009. This marked the third consecutive quarter that loans in the resolution were at least 10% delinquent.

HFA Resolutions Are Generally Better Than States'

In comparison, we have observed that the delinquency rates of general loan portfolios within a state more frequently exceed 10%. Starting with the second quarter of 2008, at least two similarly weighted state portfolios have had delinquency rates of 10% or more. MBA data from Q1 2009 indicate that the loan portfolios of four states had delinquency rates above 10% when adjusted to reflect the proportion of loans in the HFA resolution.

In Q1 2009, loan portfolios held under 26 HFA bond resolutions had delinquency rates that compared favorably to a similarly weighted state portfolio based on MBA statistics, while eight compared worse. The split represents an improvement for HFAs over the two previous comparisons (25 better versus nine worse in Q4 2008, and 24 better

against 10 worse in Q3 2008). In our view, the trend favoring HFAs indicates that while their delinquency rates are worsening, they are doing so at a rate slower than the states'. The relative performance has held steady over the last year as the same number of HFA resolutions performed better than the states: 26 in Q1 2008 and in Q1 2009.

In Q1 2009, the average delinquency rate for all loan portfolios included in resolutions governing rated bonds has increased by 2% over Q4 2008 (see charts). This figure is comparatively better than the 6% increase in the general state delinquency rate for the same period. We view this as a significant improvement, given that Q3 2008 data reflected that the average delinquency rate for all rated resolutions had increased by 16% over Q2 2008; the general state delinquency rate had increased by 13% for the same period.

Chart 1

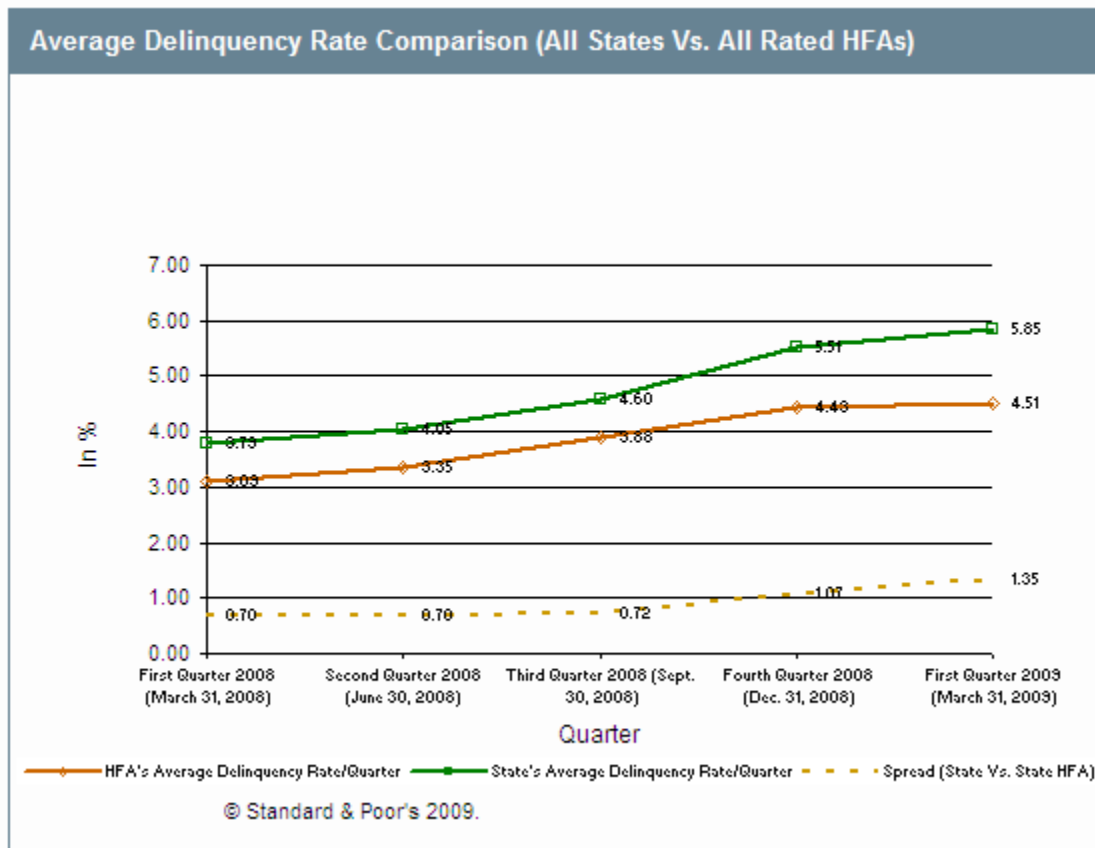
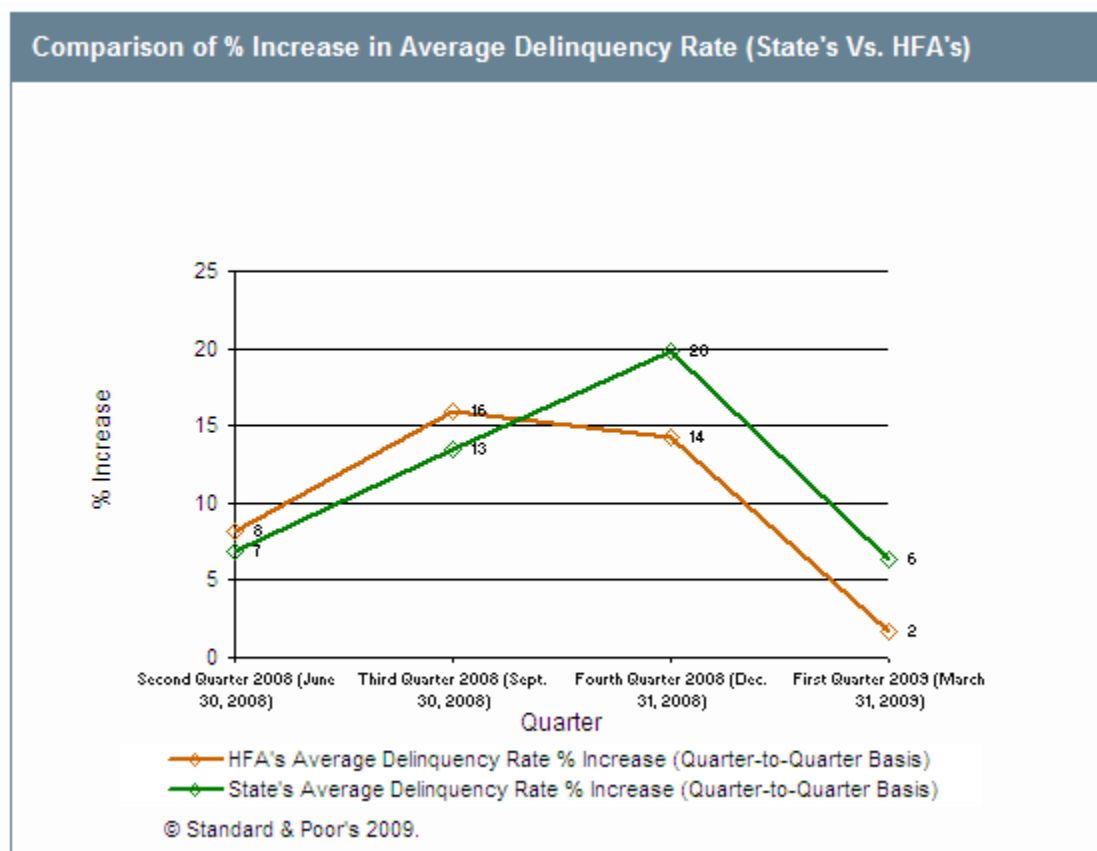


Chart 2



Rankings By State Have Undergone Some Changes

Our analysis shows that loans in most HFA resolutions illustrate consistency in their delinquency. As mentioned before, Georgia Housing and Finance Authority's resolution has had the highest delinquency rate among the 34 tracked resolutions each of the last four quarters and was ranked second highest in Q1 2008. On the other end of the spectrum, resolutions from the Alaska Housing Finance Corporation and Wisconsin Housing and Economic Development Agency have had loan portfolios with delinquency rates ranked 32nd through 34th in almost all of the last five quarters.

Some resolutions have reported significant changes during that same period. For instance, Utah Housing Corporation's single-family program (2007) increased 12 positions over the last five quarters. While the ranking for this resolution was lowest (34th) as of March 31, 2008, it rose to 22nd as of March 31, 2009. In our view, the rate of delinquency is still quite low, and the growth is the result of a portfolio of new loans experiencing more normal rates of late payment. A few more seasoned portfolios experienced higher delinquency as well. California HFA's home mortgage revenue program and the California Department of Veterans Affairs program rose by 10 and six places, respectively, over the past five quarters. The veterans program is still ranked relatively low, in our view, at 16th as of March 31, 2009. California HFA's home mortgage revenue program was ranked fifth as of March 31, 2009, compared with 15th just one year earlier. Virginia HFA's commonwealth mortgage revenue program also rose seven spots over the last five quarters. Still, we believe that due to strong overcollateralization and a high percentage

of loans with 'AAA' quality mortgage insurance from the Federal Housing Administration or the Veteran's Administration, the bonds issued pursuant to most of these resolutions have little risk of rating downgrade. Those currently rated 'AA-' issued under the California HFA's resolution are on CreditWatch with negative implications due in part to declining mortgage insurance credit from the California Housing Loan Insurance Fund (BBB) and increasing loan delinquency.

Conversely, some resolutions have reported a decline in their delinquency ranking over the past five quarters. As of March 31, 2009, North Carolina HFA's home ownership revenue program (1985 indenture) declined six spots. Primary single-family resolutions of Wyoming Community Development Authority, Montana Board of Housing (1997 indenture), West Virginia Housing Development Fund (housing finance program), and Alaska Housing Finance Corporation (home mortgage revenue program) have dropped five places. Both Wyoming Community Development Authority and Alaska Housing Finance Corp. have managed to reduce their delinquency rates despite their respective state delinquency rate rising in the last five quarters.

Recovery Or Not, HFA Loans Are On Solid Ground

Standard & Poor's will continue to track loan performance every quarter for the active single-family whole loan bond programs that it rates. Some indicators, including the S&P/Case-Shiller Home Price Indices, report that home prices have begun to increase, but we believe it is too early to draw conclusions regarding the rebound of the U.S. housing market. Such a recovery in prices could lead to a reduction in loan foreclosure, but even without a strong housing market, we believe HFA loans seem capable of performing well within the loss assumptions needed to maintain the current ratings of the bonds backed by those loans.

Gaurav Rai in Mumbai contributed to this report.

HFA/State Delinquency Stats

Table 1							
HFA/State Delinquency Stats							
HFA -- Indenture	Q1 2009			Q4 2008			
	Indenture Delinquency Stats	State Delinquency Stats	HFA's Delinquency "Higher/Lower" Compared to the Corresponding State's	Indenture Delinquency Stats	State Delinquency Stats	HFA's Delinquency "Higher/Lower" Compared to the Corresponding State's	
Georgia Housing and Finance Authority (GHFA) -- single-family mortgage bonds	10.45	11.81	Lower	11.75	12.06	Lower	
Colorado Housing and Finance Authority (CHFA) -- single-family mortgage bonds	9.64	7.34	Higher	8.08	7.44	Higher	
Florida Housing Finance Corp. (FHFC) -- homeowner mortgage revenue bonds (HMRBs)	8.74	13.12	Lower	8.37	12	Lower	

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Table 1 (cont.)						
Michigan State Housing Development Authority (MSHDA) -- single-family mortgage revenue bonds	8.41	11.68	Lower	9.57	11.65	Lower
California Housing Finance Agency (CalHFA) -- home mortgage revenue bonds	8.38	8.89	Lower	6.64	6.24	Higher
Tennessee Housing Development Agency (THDA) -- homeownership program bonds	7.63	7.5	Higher	8.57	7.75	Higher
Kentucky Housing Corporation (KHC) -- housing revenue bonds	7.63	6.87	Higher	8.18	7.09	Higher
Connecticut Housing Finance Authority -- housing mortgage finance program bonds	6.65	7.28	Lower	6.58	7.07	Lower
Minnesota Housing Finance Agency (MHFA) -- residential housing finance bonds	6.41	5.4	Higher	6.7	4.92	Higher
North Carolina Housing Finance Agency -- home ownership revenue bonds (1985 resolution)	6.36	10.33	Lower	4.85	10.47	Lower
New Jersey Housing and Mortgage Finance Agency -- single-family housing revenue bonds	5.83	8.64	Lower	6.88	7.83	Lower
Illinois Housing Development Authority (IHDA) -- HMRBs	5.4	5.84	Lower	5.05	4.85	Higher
Maine State Housing Authority -- mortgage purchase program	5.27	6.56	Lower	5.95	6.38	Lower
Virginia Housing Development Authority -- commonwealth mortgage bonds	4.82	4.62	Higher	3.75	4.32	Lower
Wyoming Community Development Authority (WCDA) -- housing revenue bonds (1994 indenture)	4.03	2.52	Higher	4.23	2.4	Higher
California Department of Veterans Affairs	3.93	8.07	Lower	3.42	6.52	Lower
Utah Housing Corporation (UHC) -- single-family mortgage bonds (2000 series)	3.79	5.16	Lower	3.86	4.92	Lower
WCDA -- single-family mortgage bonds (1978 indenture)	3.67	2.93	Higher	5.67	2.89	Higher

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Table 1 (cont.)						
North Carolina Housing Finance Agency -- home ownership revenue bonds (1998 resolution)	3.62	6.46	Lower	2.64	6.39	Lower
Pennsylvania Housing Finance Agency -- single-family mortgage revenue bonds	3.32	5.73	Lower	4.35	6.1	Lower
Vermont Housing Finance Agency -- single-family housing bonds	3.29	2.72	Higher	3.14	2.65	Higher
UHC -- single-family mortgage bonds (2007 series)	3.23	5.15	Lower	1.64	4.91	Lower
West Virginia Housing Development Fund -- housing finance bonds	2.82	5.12	Lower	3.41	5.45	Lower
Alaska Housing Finance Corp. (AHFC) -- mortgage revenue bonds	2.68	2.99	Lower	1.82	2.41	Lower
South Dakota Housing Development Authority (SDHDA) -- homeownership mortgage bonds	2.60	3.26	Higher	2.19	3.34	Lower
Rhode Island Housing and Mortgage Finance Corporation -- homeownership opportunity bonds	2.59	5.72	Lower	2.39	4.96	Lower
Massachusetts Housing Finance Agency (MassHousing) -- single-family housing revenue bonds	2.19	4.41	Lower	2.18	3.79	Lower
Montana Board of Housing -- single-family program bonds (1977 indenture)	2.02	3.51	Lower	1.94	3.28	Lower
AHFC -- home mortgage revenue bonds fixed rate	2.02	2.77	Lower	1.54	2.28	Lower
AHFC -- general mortgage revenue bonds	1.63	2.59	Lower	1.16	2.13	Lower
Montana Board of Housing -- single-family mortgage bonds (1997 indenture)	1.48	3.78	Lower	1.53	3.58	Lower
Wisconsin Housing & Economic Development Authority (WHEDA) -- 1988 homeownership revenue bonds	1.11	3.86	Lower	1.08	3.45	Lower
WHEDA -- 1987 homeownership revenue bonds	1.03	3.86	Lower	0.98	3.45	Lower

Table 1 (cont.)

AHFC -- veterans mortgage program bonds	0.52	2.52	Lower	0.64	2.27	Lower
Average	4.56	5.85	26 lower/8 higher	4.43	5.51	25 lower/9 higher
Particulars	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	
Number of indentures whose delinquency rate is "higher" than state's delinquency	8	9	10	6	8	
Number of indentures whose delinquency rate is "lower" than state's delinquency	26	25	24	28	26	
Total indentures	34	34	34	34	34	

Indenture Delinquency Stats

Table 2
Indenture Delinquency Stats

HFA -- Indenture	Q1 2009	Indenture Rank					Average Rank
	Indenture Delinquency Stats	1st	4th	3rd	2nd	1st	
		Quarter/2009	Quarter/2008	Quarter/2008	Quarter/2008	Quarter/2008	
		March 31, 2009	Dec. 31, 2008	Sept. 30, 2008	June 30, 2008	March 31, 2008	
GHFA -- single-family mortgage bonds	10.45	1	1	1	1	2	1.20
CHFA -- single-family mortgage bonds	9.64	2	6	3	4	3	3.60
FHFC -- HMRBs	8.74	3	4	6	6	6	5.00
MSHDA -- single-family mortgage revenue bonds	8.41	4	2	2	2	1	2.20
CalHFA -- home mortgage revenue bonds	8.38	5	9	13	13	15	11.00
THDA -- homeownership program bonds	7.63	6	3	4	3	5	4.20
KHC -- housing revenue bonds	7.63	7	5	5	7	7	6.20
Connecticut Housing Finance Authority -- housing mortgage finance program bonds	6.65	8	10	8	11	8	9.00
MHFA -- residential housing finance bonds	6.41	9	8	9	10	11	9.40
North Carolina Housing Finance Agency -- home ownership revenue bonds (1985 resolution)	6.36	10	14	14	5	4	9.40
New Jersey Housing and Mortgage Finance Agency -- single-family housing revenue bonds	5.83	11	7	7	14	9	9.60
IHDA -- HMRBs	5.4	12	13	15	15	14	13.80

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Table 2 (cont.)							
Maine State Housing Authority -- mortgage purchase program	5.27	13	11	12	12	12	12.00
Virginia Housing Development Authority -- commonwealth mortgage bonds	4.82	14	18	20	21	21	18.80
WCDA -- housing revenue bonds (1994 indenture)	4.03	15	16	11	8	10	12.00
California Department of Veterans Affairs	3.93	16	19	21	24	22	20.40
UHC -- single-family mortgage bonds (2000 series)	3.79	17	17	19	19	19	18.20
WCDA -- single-family mortgage bonds (1978 indenture)	3.67	18	12	10	9	13	12.40
North Carolina Housing Finance Agency -- home ownership revenue bonds (1998 resolution)	3.62	19	22	22	18	16	19.40
Pennsylvania Housing Finance Agency -- single-family mortgage revenue bonds	3.32	20	15	16	16	17	16.80
Vermont Housing Finance Agency -- single-family housing bonds	3.29	21	21	18	23	20	20.60
UHC -- single-family mortgage bonds (2007 series)	3.23	22	28	29	34	34	29.40
West Virginia Housing Development Fund -- housing finance bonds	2.82	23	20	17	17	18	19.00
AHFC -- mortgage revenue bonds	2.68	24	27	27	20	23	24.20
SDHDA -- homeownership mortgage bonds	2.6	25	24	25	28	27	25.80
Rhode Island Housing and Mortgage Finance Corporation -- homeownership opportunity bonds	2.59	26	23	24	27	28	25.60
(MassHousing) -- single-family housing revenue bonds	2.19	27	25	23	26	25	25.20
Montana Board of Housing -- single-family program bonds (1977 indenture)	2.02	28	26	26	29	29	27.60
AHFC -- home mortgage revenue bonds fixed rate	2.02	29	29	30	22	24	26.80
AHFC -- general mortgage revenue bonds	1.63	30	31	31	25	30	29.40
Montana Board of Housing -- single-family mortgage bonds (1997 indenture)	1.48	31	30	28	30	26	29.00
WHEDA -- 1988 homeownership revenue bonds	1.11	32	32	32	31	31	31.60
WHEDA -- 1987 homeownership revenue bonds	1.03	33	33	33	32	32	32.60
AHFC -- veterans mortgage program bonds	0.52	34	34	34	33	33	33.60
Average	4.51						

HFA Ranking Changes

Table 3

HFA -- Indenture	Ranking Changes	
	Q1 2009 Vs. Q4 2008	Q1 2009 Vs. Q1 2008
GHFA -- single-family mortgage bonds	0	1
CHFA -- single-family mortgage bonds	4	1
FHFC -- HMRBs	1	3
MSHDA -- single-family mortgage revenue bonds	(2)	(3)
CalHFA -- home mortgage revenue bonds	4	10
THDA -- homeownership program bonds	(3)	(1)
KHC -- housing revenue bonds	(2)	0
Connecticut Housing Finance Authority -- housing mortgage finance program bonds	2	0
MHFA -- residential housing finance bonds	(1)	2
North Carolina Housing Finance Agency -- home ownership revenue bonds (1985 resolution)	4	(6)
New Jersey Housing and Mortgage Finance Agency -- single-family housing revenue bonds	(4)	(2)
IHDA -- HMRBs	1	2
Maine State Housing Authority -- mortgage purchase program	(2)	(1)
Virginia Housing Development Authority -- commonwealth mortgage bonds	4	7
WCDA -- housing revenue bonds (1994 indenture)	1	(5)
California Department of Veterans Affairs	3	6
UHC -- single-family mortgage bonds (2000 series)	0	2
WCDA -- single-family mortgage bonds (1978 indenture)	(6)	(5)
North Carolina Housing Finance Agency -- home ownership revenue bonds (1998 resolution)	3	(3)
Pennsylvania Housing Finance Agency -- single-family mortgage revenue bonds	(5)	(3)
Vermont Housing Finance Agency -- single-family housing bonds	0	(1)
UHC -- single-family mortgage bonds (2007 series)	6	12
West Virginia Housing Development Fund -- housing finance bonds	(3)	(5)
AHFC -- mortgage revenue bonds	3	(1)
SDHDA -- homeownership mortgage bonds	(1)	2
Rhode Island Housing and Mortgage Finance Corporation -- homeownership opportunity bonds	(3)	2
MassHousing -- single-family housing revenue bonds	(2)	(2)
Montana Board of Housing -- single-family program bonds (1977 indenture)	(2)	1
AHFC -- home mortgage revenue bonds fixed rate	0	(5)
AHFC -- general mortgage revenue bonds	1	0
Montana Board of Housing -- single-family mortgage bonds (1997 indenture)	(1)	(5)
WHEDA -- 1988 homeownership revenue bonds	0	(1)
WHEDA -- 1987 homeownership revenue bonds	0	(1)
AHFC -- veterans mortgage program bonds	0	(1)

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